CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 19, 2002

H.R. 3347

General Aviation Industry Reparations Act of 2002

As ordered reported by the House Committee on Transportation and Infrastructure on February 27, 2002

SUMMARY

H.R. 3347 would provide financial assistance to general aviation entities (including airports, flight schools, manufacturers, crop dusters, and fuel suppliers) and their employees. This aid would include $2.5 billion in grants, up to $3 billion in direct loans or loan guarantees, and reimbursement for certain increases in insurance premiums that have occurred since the terrorist attacks on September 11th. The bill would require the President to submit a report, within 180 days of enactment, on the amount of assistance provided to each general aviation entity and its financial status.

Based on information from the Federal Aviation Administration (FAA) and representatives of the general aviation industry, CBO estimates that enacting H.R. 3347 would cost about $2.7 billion over the 2002-2012 period. Because H.R. 3347 would designate all such costs as emergency requirements, pay-as-you-go procedures would not apply.

H.R. 3347 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. The bill could benefit certain general aviation airports by providing loan guarantees and compensation for losses incurred as a result of the September 11 attacks; any costs to participating entities would be incurred voluntarily as a condition of federal assistance. This bill contains no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3347 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING						
Grants to General Aviation Businesses, Airports, and Employees						
Budget Authority	2,500	0	0	0	0	0
Estimated Outlays	250	1,250	750	250	0	0
Credit Assistance to General Aviation Businesses and Airports						
Estimated Budget Authority	30	135	2	2	2	2
Estimated Outlays	30	135	2	2	2	2
Total Spending Under H.R. 3347						
Estimated Budget Authority	2,530	135	2	2	2	2
Estimated Outlays	280	1,385	752	252	2	2

BASIS OF ESTIMATE

The financial assistance authorized by H.R. 3347 would be available without further appropriation and would be designated by Congress as emergency spending. Agencies could not obligate the money, however, unless the President also designates the spending as an emergency requirement. For this estimate, CBO assumes that the bill will be enacted by July 1, 2002, and that the President will make the emergency designation. We estimate that enacting H.R. 3347 would increase direct spending by nearly $2.7 billion over the 2002-2007 period.

Grants

Under the bill, the President would be authorized to provide up to $2.5 billion in grants to general aviation entities as compensation for losses sustained as a direct result of federal orders that grounded flights after the terrorist attacks on September 11, 2001. General aviation entities, however, could only be compensated for losses sustained between September 11, 2001, and December 31, 2001. Such losses would include the wages and insurance benefits of employees who lost their jobs during this period as a result of federal regulations that halted flights.

Based on information from the FAA and industry associations, CBO estimates that about 50,000 businesses and airports would apply for compensation under H.R. 3347 and would be able to claim losses totaling at least $3 billion—more than would be provided under the bill. The bill would require the President to compensate the employees of any business that receives federal compensation grants for any individual losses (wages and benefits). The bill would direct the President to give priority for compensation to small businesses based on the length of time that the entity was unable to operate because of federal regulations. CBO expects that gathering information from the affected entities and disbursing funds equitably would take a few years and that the funds would be disbursed by the end of fiscal year 2005.

Federal Credit Assistance

H.R. 3347 would allow the Air Transportation Stabilization Board, consisting of the Secretary of Transportation, the Secretary of the Treasury, and the Chairman of the Federal Reserve Board, to provide loan guarantees or direct loans worth up to $3 billion to general aviation entities. The board would be required to ensure that the federal government is compensated for the risk of extending this credit assistance, and could accept warrants, stock options, or preferred stock in order to participate in any financial gains of a borrower.

Under procedures established by the Federal Credit Reform Act, the subsidy cost of a federal direct loan, loan guarantee, or line of credit is the estimated long-term cost to the government, calculated on a net present value basis. CBO estimates that the credit assistance provided under the bill would cost about 25 percent of the total amount borrowed and that general aviation entities would borrow about $600 million of the $3 billion available under the bill. We therefore estimate that the subsidy cost of this credit assistance would be about $150 million. This estimate is based on information about the financial condition of the general aviation industry and the cost of loans and guarantees extended by the Small Business Administration.

In evaluating the risk to the government of extending credit to the general aviation industry, CBO considered how the financial position of general aviation entities would be affected by the $2.5 billion in grants under the bill. For this estimate, CBO assumes that the Air Transportation Stabilization Board would issue federal credit assistance on terms similar to the assistance the board provides under current law to U.S. air carriers. Specifically, we assume the board would guarantee less than 100 percent of the value of the loan and that loans would reach maturity within seven years. The board’s regulations also require borrowers to pay fees that would escalate each year the loan is outstanding. Such fees would reduce the cost of providing credit assistance. Some entities may not withstand their current financial strain, but we expect the Air Transportation Stabilization Board would exercise its discretion when choosing which entities to assist.

Based on information from industry associations and the cost of credit under H.R. 3347 relative to other private and government sources, CBO expects that few general aviation entities would seek this credit assistance. Many general aviation businesses could receive credit assistance under other federal programs on more favorable terms than the rules of the board would allow. Many airports are either owned or supported by state and local governments, and could obtain more favorable financing through public borrowing. Finally, because the bill would impose new constraints on general aviation airports and businesses that borrow under this program, this federal credit assistance may not be attractive to many entities. H.R. 3347 would require borrowers to pay the costs of up to six months of health insurance coverage for current and former employees who lost their insurance coverage as a result of the terrorist attacks of September 11, 2001. The bill also would require entities accepting credit assistance to limit the compensation of officers and employees for two years after enactment of H.R. 3347.

Because the board would need time to review credit applications, we expect it would issue most loans or guarantees during fiscal year 2003. The administrative expenses of the board would be the highest during those two years. We estimate that administering the program would cost about $5 million in 2002, $10 million in 2003, and $2 million a year for the remaining years of the program.

H.R. 3347 would reduce the amount of loans and loan guarantees that the board may issue to air carriers under current law by the amount of loans and loan guarantees that it issues to general aviation entities under the bill. Based on the applications for credit assistance that the board has received to date, however, CBO estimates that at least $600 million will not be used by air carriers. The board, therefore, could implement H.R. 3347 without affecting the existing program for air carriers.

Reimbursement of War-Risk Insurance Costs

H.R. 3347 would expand an existing program to authorize the Secretary of Transportation to reimburse general aviation entities for increases in insurance premiums that occurred since September 11, 2002. This program expires, however, on March 22, 2002. For this estimate CBO assumes H.R. 3347 will be enacted after that date. Hence, this provision would have no cost.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. H.R. 3347 would designate the amount of new budget authority and outlays that would result from the bill as an emergency requirement. Thus, the estimated cost of the bill—$2.7 billion over the 2002-2012 period—would be exempt from pay-as-you-go procedures.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3347 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. The bill could benefit certain general aviation airports by providing loan guarantees and compensation for losses incurred as a result of the September 11 attacks; any costs to participating entities would be incurred voluntarily as a condition of federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill contains no new private-sector mandates as defined in UMRA.

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